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Credit Insurance Rule

Reforming credit life and credit accident and health insurance

What is credit insurance?
Credit life and credit accident and health insurance is sold by lenders, including banks, credit unions, auto dealers and finance companies, in conjunction with a loan or credit transaction. The coverage pays the outstanding balance or a portion of the loan balance if the consumer dies or becomes disabled.

Each year in Washington, approximately 30 insurance companies sell almost $50 million worth of credit life and credit accident and health insurance.

The previous credit insurance regulations were established nearly 40 years ago. Our new rule mandates that insurers provide benefits reasonable to the premiums they're charging. It sets new standards for determining rates, clarifying operating procedures and most importantly, defines what insurers must disclose to consumers.

What's different under the new rule?
For every premium dollar collected, credit life and credit accident and health insurers must pay out a certain amount in benefit to the consumer.

The new rule establishes a new standard or "*prima facie*" rate and sets a minimum loss ratio where insurers would pay out at least 60 cents for each dollar of premium they collect. These new standards could save Washington consumers more than $13 million a year in premiums.

Under the new rule, anyone selling credit life or credit accident and health insurance must disclose certain information to consumers, including:

- All credit insurance plans that a consumer is eligible to purchase
- The cost of each insurance plan
- The consumer's right to cancel the policy within 30 days
- The consumer's right to provide alternative coverage, either through an existing policy or a newly-purchased plan
- The consumer's rights when the policy ends
- That the insurer cannot change the consumer's effective date of coverage if the debt is refinanced

If a consumer purchases credit insurance in connection with a loan or credit transaction, the consumer must be provided with certain information in writing, including:

- A clear declaration that credit insurance isn't required for credit approval
- That the consumer may not need credit insurance if they have other insurance
- Each type of coverage can be purchased separately, if the creditor offers more than one type of credit insurance

- What factors were used and why, if the insurer denies or limits the consumer's coverage

An example of how the new rule may affect credit insurance premiums:
For a $1,500 refrigerator financed for 24 months, the cost of insurance would be reduced from about $73 to $59, saving the consumer $14.

For a more expensive item such as an automobile, the savings is more substantial. If a consumer buys a new car for $20,000 and finances it for 60 months the credit insurance rates would decrease from about $1,500 to $1,199 saving the consumer more than $300.

Tips for consumers on buying credit insurance:

- ✓ Be aware of what coverage you already have. Credit insurance could duplicate existing life and disability coverage.

- ✓ This coverage is almost always voluntary, and you're under no obligation to purchase the insurance in order to obtain the loan or line of credit.

- ✓ If you chose to purchase credit insurance, make sure you know the details of the coverage and understand the benefits and terms.

- ✓ Be aware that the premium for credit insurance is often included in the total amount of the loan or credit, which means your paying interest on it.

- ✓ Some lenders offer a product known as "debt cancellation." This functions similarly to credit insurance, but doesn't involve an insurance company.

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